

ARMED FORCES RETIREMENT HOME

REPORT TO CONGRESS

FY 2003





UPWARD

How do you thank a hero?

How do you repay those who have put their lives on the line to safeguard your freedom and your country? At a time when our military is once again engaged in battle, these are not theoretical questions. They are the issues we face every day.

In FY2002, we undertook a new mission: to transform the Armed Forces Retirement Home into a dynamic institution that is the residence of choice for veteran servicemen and women. To this end, we developed an aggressive strategy to protect our assets, expand resident programs and services, implement tech-efficient business practices and train new ranks of leadership.

In FY2003, we began to reduce our footprint, realign costly-to-maintain non-core operations and establish strategic partnerships with other governmental (military and nonmilitary) agencies, as well as with civilian organizations. And for the first time in AFRH's history, we selected joint leadership for both campuses, Army and Navy at Washington and Navy and Air Force at Gulfport.

The changeover from "survive" to "thrive" has yielded major achievements, particularly in re-building the trust fund, streamlining operations and, most importantly, improving the quality of life for our residents. It has enabled us to plan for the long term and develop the best practices that fulfill our commitments to our many constituencies. Our major achievements and our new operating model would have been more difficult to put into place without the unconditional support from the Office of the Secretary of Defense, Navy leadership, the active duty military, the veteran service organizations and our partners in the private sector.

As we go forward, we will do even more to make AFRH the best it can be so we are able to say "welcome home" to a new generation of heroes.



Timothy C. Cox
Chief Operating Officer



ONWARD

If a journey of a thousand miles starts with the first step, then we are proud to report that we have traveled a very long way on our road to reinventing AFRH with a resident focus. Since Fiscal Year 2002, progress has been our watchword, and we have succeeded in shifting the paradigm to manage our key processes. Our operation has evolved from “doing more with less” to “working smarter and achieving more.”

With the President’s Management Agenda as our blueprint and Department of Defense, General Services Administration, Office of Management and Budget, and Department of Treasury as our partners, we are developing a set of consistent standards, policies and procedures to better serve our residents and to meet stakeholder mandates. Expanding electronic government access has eliminated duplication of resources, improved accounting and reporting

procedures and integrated contracting and other business functions.

Competitive sourcing in five key areas—facilities maintenance, transportation, refuse collection, grounds maintenance, and snow removal—has reduced our operating cost by \$2.5M over five years. On the earnings side, increases in fines and forfeitures and resident fees produced an additional \$5M for the Trust Fund. Fiscal Year 2003 marked the turning point for real estate negotiations which will produce significant income in Fiscal Year 2004.

I am confident that our carefully developed initiatives point us in the right direction. Our strategy towards the vision of a thriving retirement community for veterans has been set, and we are poised for another year of remarkable progress in financial and operating performance.

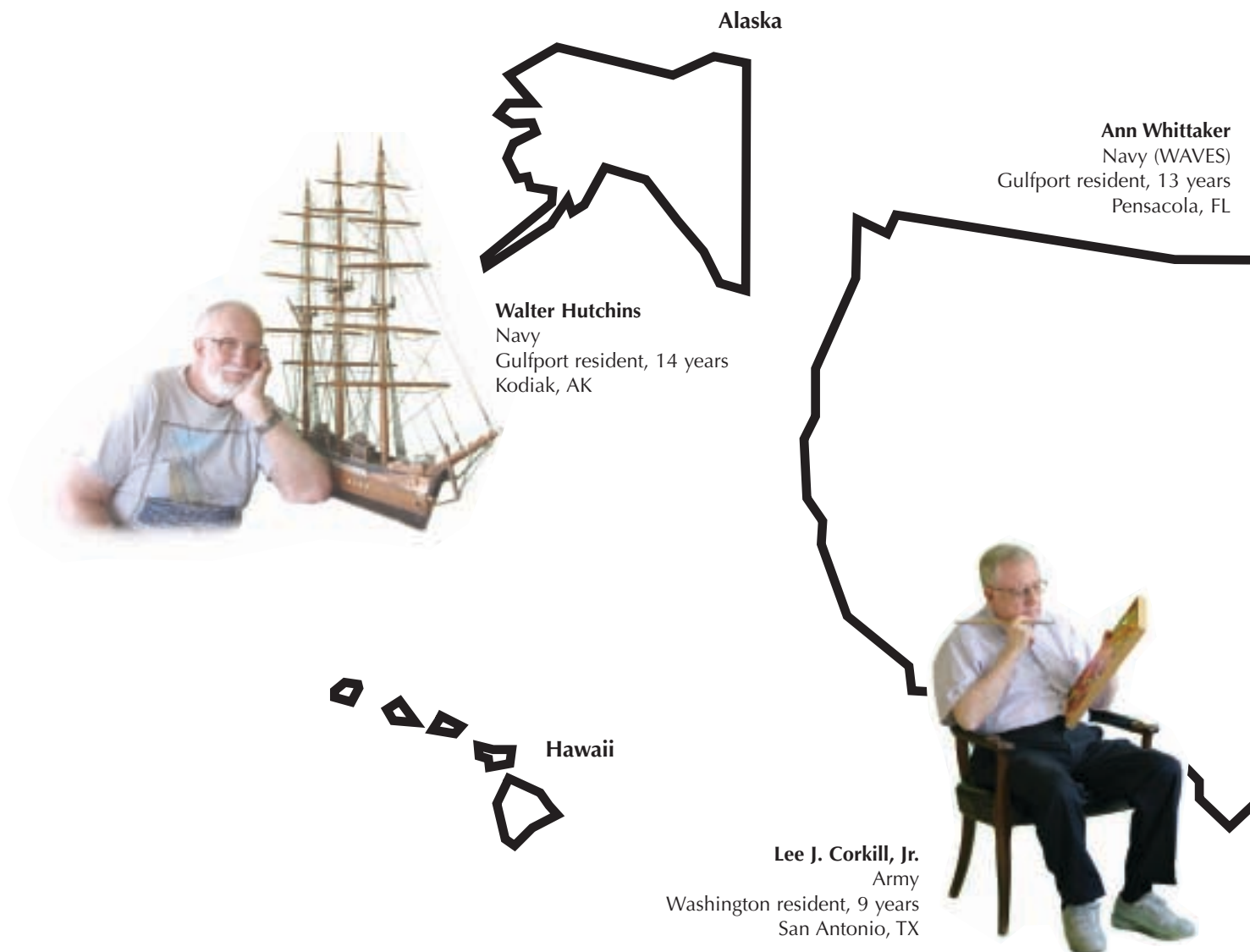


Steven G. McManus
Chief Financial Officer

SALUTING THE PAST

In 1811, Congress established the first home for veterans—the Naval Home for “destitute and decrepit” naval officers, sailors and Marines. In 1851, with reparations from the Mexican War, Congress funded the creation of the Soldiers’ and Airmen’s Home, an asylum for “old and disabled soldiers.” Fast forward to 1991 when the Armed Forces Retirement Home Act incorporated both homes into one independent institution within the Executive Branch. In 2002, the National Defense Authorization Act officially united the two campuses under one name: Armed Forces Retirement Home.

Throughout our history, our mission has never faltered: to provide the highest level of care and services to America’s Armed Forces Veterans. We are committed to meeting their residential, social and health care needs in a community of support and shared values. Just as they so honorably served their country, AFRH-Gulfport and AFRH-Washington stand ready to serve them at this time in their lives.



OUR BAND OF BROTHERS—AND SISTERS

Our residents represent every war from World War II through Vietnam. They hail from every state, Washington, D.C. and Puerto Rico. As of September 30, 2003, the total resident population at AFRH was 1609, with 1037 residents at the Washington campus and 572 residents at the Gulfport campus. The average resident's age is 77 years old. There are 17 married couples living at AFRH.

Service Mix	AFRH-Gulfport	AFRH-Washington
Army	20%	51%
Air Force	21%	36%
Navy/Marine Corps	59%	12%
Coast Guard (service in the Navy)	.001%	.006%
Gender		
Male	89%	92%
Female	11%	8%
Status		
Retired	77%	74%
Other	23%	26%



Raymond Whitelow
Air Force
Washington resident,
5 years
Nashville, TN

Frank Castro
Army
Washington resident, 32 years
Bronx, NY



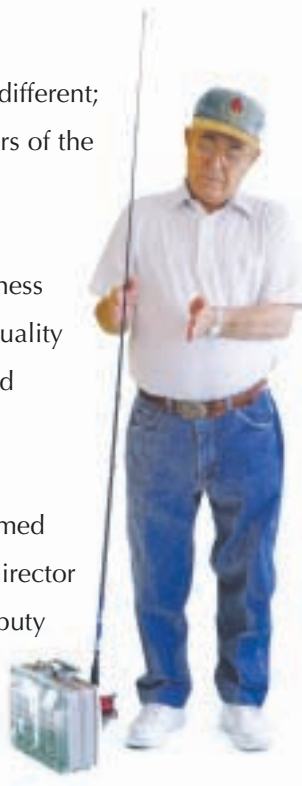
Puerto Rico

HOME TO THE BRAVE

AFRH is, at its heart, a community. Our uniforms may have been different; our careers may have taken different paths. But we are all members of the same family, with the same culture, values and expectations.

AFRH is one of the best benefits of military service. The new business model that we have adopted will allow us to deliver the highest quality senior living services possible while remaining fiscally prudent and organizationally efficient.

In FY2003, AFRH embarked on a great transformation. We welcomed Lieutenant Colonel Wendy Van Dyke, the first Air Force Deputy Director of AFRH-Gulfport and Commander Paul Soares, the first Navy Deputy Director of AFRH-Washington. With this new leadership, we began to take the necessary steps to improve and standardize our amenities, programs and health care. In this way, we could build a truly welcoming home to the brave—our veterans from all services.



William Sinnott
Air Force
Washington resident, 10 months
Atlanta, GA

AFRH gives residents the freedom, structure and support to live fully and remain connected to the world outside. They can continue their public service in new, equally rewarding ways. Our residents are mentors, teachers and problem solvers. They contribute their time and talents to schools, churches, corporations and local service organizations.

And the community has returned the favor. Our campuses are filled with engaged and committed volunteers from every segment of society—Congress, the Department of Defense and other federal agencies, leading cultural, educational, and medical institutions and veterans organizations. Together, we strengthen our connection to an impressive heritage.

AFRH represents the absolute best return on investment for its residents and the nation. It is our duty to keep it that way.



*Jerald L. Ulmer, Sr. CAPTAIN, USN
Director, AFRH-Gulfport
Interim Director, AFRH-Washington*

William H Cleveland, Sr.
Navy, Air Force, Army
Gulfport resident, 6 years
Aliceville, AL



Annelise Albert
Army
Washington resident, 3 years
Milwaukee, WI



Al Cotta
Navy, Army
Gulfport resident, 13 years
Boston, MA



FY2003 ACHIEVEMENTS

The cornerstone of the “survive to thrive” model is accountability. Stringent reporting guidelines and rigorous performance standards quantify how well we carry out our mission and mandates.

In Fiscal Year 2003, a major thrust was towards decreasing operating costs. AFRH achieved this success by carrying out the reforms first identified in Fiscal Year 2002. The Washington campus reduced its footprint 112,629 square feet by vacating unused buildings, closing unprofitable operations and shifting functions to other locations on the campus. Our successful efforts were recognized by our stakeholders. The OMB Program Assessment Rating Tool (PART) uses space and land reduction as one indication to measure success in lowering expenses. In Fiscal Year 2003, OMB awarded AFRH a rating of “moderately effective” (the second highest out of four) based on significantly improved allocation of resources, achievement of cost savings and minimization of risk.

AFRH began managing its human capital more efficiently. We established joint leadership at both Gulfport and Washington to ensure that the facilities support one mission, maintain one model/standardized operation, and more efficiently share resources. By eliminating redundant and unnecessary staffing by 11% on each campus and then increasing critical nursing positions to enhance resident care, AFRH is optimizing its staffing. The result is reduced layering and workload across both campuses to maximize service-delivery to residents.

AFRH is also improving processes, gaining efficiencies and thereby reducing operational expenses through competitive outsourcing and electronic government. We have begun outsourcing non-resident services in Gulfport and Washington. In the accounting area, we initiated the transfer of non-appropriated accounting to Navy Morale, Welfare and Recreation and began the process to outsource appropriated accounting to the Bureau of Public Debt (effective April 2004). AFRH contracted out application services to Internet-based vendors. These services, which include accounting and financial management, e-mail, procurement, security, website and intranet, cover both AFRH facilities. Additionally, we standardized payment for resident employment activities at both facilities.



Jeffrey McGee
Army
Washington resident, 6 months
Pittsburgh, PA

As a senior care facility, we have targeted considerable resources to enhancing health care delivery. In Fiscal Year 2003, we restructured the pharmacy system to assure greater oversight, quality control and compliance. An off-site supplier now packages unit-dose prescriptions for delivery to assisted living and long-term care residents. The program conceptualized in Fiscal Year 2003 is operational in 2004 in Washington and in development in Gulfport. All Washington health care administrative offices were relocated to a single point of access in the King Health Center to improve access for the residents. The AFRH-Washington Master Plan includes refurbishing the Scott Building to accommodate the pharmacy and the memory support, ambulatory and assisted living clinics in one central location.

Health and wellness is the central focus of our resident-centered initiatives. To avoid duplicating services and to utilize Medicare, TRICARE and other insurance resources better at both locations, AFRH began contracting out primary care doctors. In-house medical staff remains on call for assisted living and long-term care residents. Specialized health and wellness programs were established to educate residents and intervene in their care when necessary. Care plans have been redesigned to empower residents to remain active participants in their own care. Additionally, AFRH contracted a bus service to take Washington residents to Walter Reed, the VA hospital and Washington Hospital Center. The Gulfport campus recently purchased a 10-acre parcel for expanded resident use and is expected to begin construction of a new blended-use, multi-care facility in early 2005.

Mimi Rivkin
Army Air Corps
Washington resident, 6 years
Tulsa, OK





THE PRESIDENT LINCOLN & SOLDIERS' HOME NATIONAL MONUMENT

The President Lincoln and Soldiers' Home National Monument is the most important presidential site in the country yet to be restored. For a period of 14 months during the Civil War, President Lincoln lived in a cottage at the Soldiers' Home. And it was here that he drafted the Emancipation Proclamation and rendered some of his most critical decisions about the war and the future of our country.

(left) GLC 245. Abraham Lincoln. Photograph: Portrait of Abraham Lincoln by Alexander Gardner, November 1863 (The Gilder Lehrman Collection, courtesy of The Gilder Lehrman Institute of American History, New York).

(bottom) "Soldiers' Home, Washington, D.C." Color lithograph published by Charles Magnus, ca. 1868. Library of Congress, LC-USZ62-16818



In 1999, AFRH-Washington partnered with the National Trust for Historic Preservation to steward the site's preservation and redevelopment. In 2000, the site topped the National Trust's annual list of "America's Most Endangered Historic Places." Shortly thereafter, President Clinton designated the cottage and surrounding 2.3 acres as a National Monument in recognition of the site's role as Lincoln's presidential retreat. Although much of the cottage's historic fabric is intact, the effects of time and lack of resources have left it in need of crucial repairs.

The long-term vision for the monument includes:

- a fully operational historic site featuring a preserved Lincoln Cottage
- a partially restored historic landscape
- a Visitor Center with amenities
- exhibits and programs for all ages that explore the ideas and actions of President Lincoln, present the context of his presidency in Civil-War Washington and document the history of the Soldiers' Home.



OUR FUTURE

AFRH has a distinguished past and promising future. As the population of aging veterans grows, there will be increased demand for the senior living services we provide. To drive the long-term success of the “survive to thrive” model, we are developing strategies that:

- strengthen the net growth and stability of the trust fund
- deliver exceptional services and programs to attract and retain residents
- structure efficient internal operations to leverage resources throughout AFRH
- promote professional development and high performance standards
- foster a commitment to service, quality, integrity and mutual respect.



Nagaoka Minoru & staff
Air Force
Washington resident 4 years
Federal Way, WA

Our long-range goal is to create a single agency, serving veterans at different campus locations. This single model will be governed by one set of consistent policies that result in measurably better services for our residents, greater productivity and improved budgetary management.

The model is achievable and within reach. Our progress in FY2003 and plans for the future will ensure that we continue to meet the President's Management Agenda, satisfy stakeholder mandates and exceed resident expectations.



Jo Soboleski
Army
Washington resident, 12 years
Topsham, ME

Jo Colvard
Army
Washington resident, 11 years
San Diego, CA



Amos Robinson & guest
Navy
Gulfport resident, 23 years
Clinton, NC



P. J. Johnson
Air Force
Gulfport resident, 2 years
Minot, ND



THE YEAR IN REVIEW

AFRH STATUS OF TRUST FUND

AS OF 9/30/03 (FY2003)

Trust Fund Balance 9/30/02	\$	100,580,452
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Receipts FY 2003

Purchase/Sale on Investments	\$902,531
Interest/Inflation & Premium/Discount Recognized	5,333,961
Unrealized Discounts	-86,815
Pay Withholdings	7,230,963
Fines and Forfeitures	39,089,254
Resident Fees	13,927,688
Donations	8,781
Estates, Misc, Receipts	257,421
OM Receipts	39,745
Purchase/Sale and Leases	452,637
Total Receipts	\$ 67,156,166

Disbursements

AFRH-Gulfport	
Capital Projects	7,669,075
Operation & Maintenance	16,939,620
AFRH-Washington	
Capital Projects	2,314,059
Operation & Maintenance	46,023,249
Total Capital	\$9,983,134
Total O& M	\$62,962,869
Total Disbursements	\$ 72,946,003

Investments

Investments EFY02	85,509,000
Investments EFY03	86,411,531

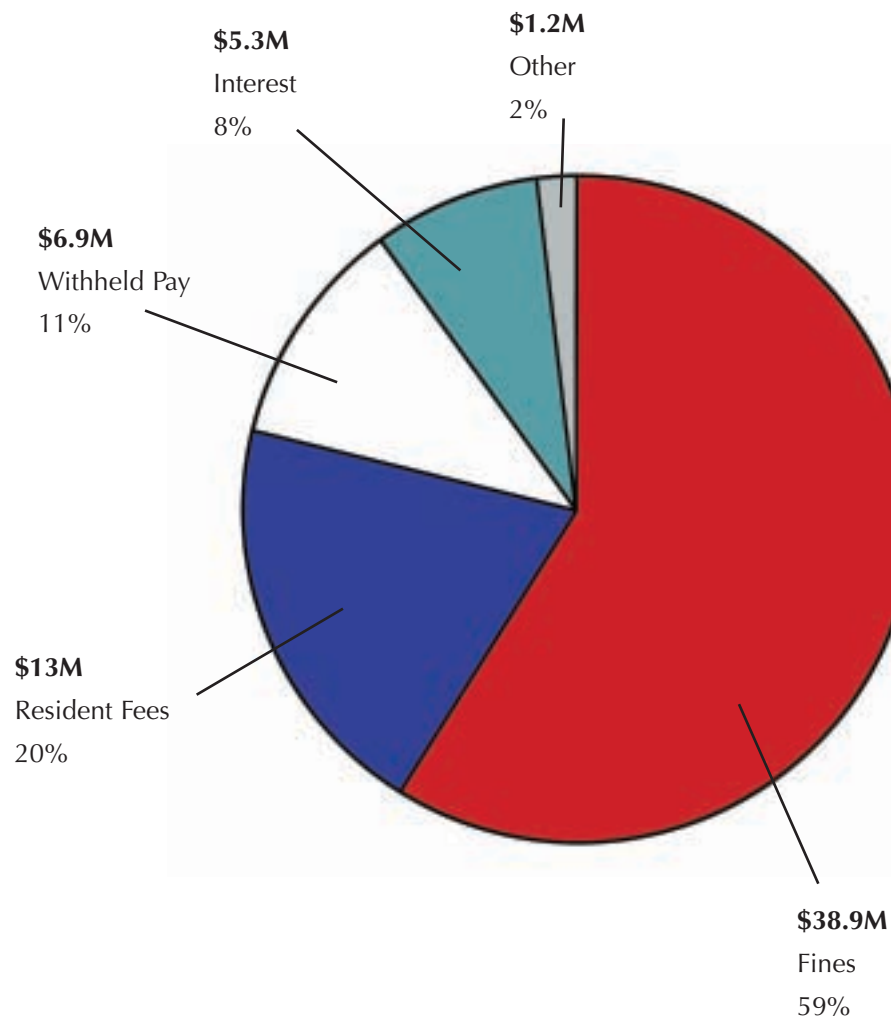
Net Change in Investments	\$	(902,531)
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Discounts on Investments FY02	\$86,815
Discounts on Investments FY03	-

Net Change in Discount on Investments	\$	86,815
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Trust Fund Balance 9/30/03	\$	93,974,899
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FY2003 TRUST FUND INCOME SOURCES—\$65M



The Armed Forces Retirement Home Act of 1991 also created the AFRH Trust Fund. Income is derived from active duty withheld pay, fines and forfeitures, residents' fees, interest on investment income and gifts and bequests. Operating funds must be authorized and appropriated by Congress. In FY2003, trust fund income rose to \$65 million.

Arnold Muller
Army
Gulfport resident, 6 months
Edmeston, NY



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